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[1](#)1. (U) This cable contains the Japan Economic Scope from August 23, 2007.

2.(SBU) Table of Contents

Political Moves

- [1](#)3. Official Discusses Japan's "Confused" Political Situation, East China Sea and More
- [1](#)4. WTO Talks Set to Resume as Japanese Negotiators Face Cabinet Reshuffle
- [1](#)5. Abe Visits Indonesia, EPA, LNG and Climate Change Top Agenda. Food Fights
- [1](#)6. Beef: Both Sides Feeling Grilled
- [1](#)7. Farm Sector Protectionists Keep Up Pressure Against Doha
- [1](#)8. Upper House Election Results Not Good for Japan Agriculture
- [1](#)9. After Round Two, Agriculture Continues to Divide Japan-Australia FTA Talks
- [1](#)10. Japan's Food Self Sufficiency Rate Drops Below 40 Percent
- [1](#)11. DOI DAS David Cohen Touts Japanese Business Opportunities in Guam, Saipan and Palau
- [1](#)12. Local Governments Expecting Economic Windfall From New Sharp Plant
- [1](#)13. Japan's Parent-Child Problem
- [1](#)14. Hoya-Pentax Merger
- [1](#)15. Tax Revenues Up in the Kansai
- [1](#)16. Bank of Japan Leaves Interest Rates Unchanged
- [1](#)17. GE to Pull Plug on Consumer Finance?
- [1](#)18. IAEA Says No Significant Damage to Plant (U)
- [1](#)19. TEPCO Officials Brief Embassy on Kashiwazaki-Kariwa Nuclear Plant Damage
- [1](#)20. Earthquake's Reverberations Affect Power Supply to Industry
- [1](#)21. Showa Shell to Build One of World's Largest Solar Cell Plants in Miyazaki
- [1](#)22. Inpex to Build LNG Terminal in Niigata
- [1](#)23. Scrutinizes Product Safety
- [1](#)24. Rules for Japanese Internet Service Providers to Fight Viruses
- [1](#)25. Japan Views Asia -- PM's Asia Gateway Report Online
- [1](#)26. Yokohama Port and Japanese Megaterminal Policy: Minor Reforms with a lot of Business as Usual
- [1](#)27. Michigan's Gentex Dominates Unique and Growing Auto Parts Sector
- [1](#)28. Toyota's "Sustainability Report 2007" Sporting
- [1](#)29. Matsuzaka Victimized Again
- [1](#)30. "Gaman-tsuyoi" Prize Goes to Motorcyclist

POLITICAL MOVES

13. (SBU) Official Discusses Japan's "Confused" Political Situation, East China Sea and More

According to our contacts, much of the legislation to be debated in the next session of the Diet, including a bill aimed at helping Japan meet its Kyoto Protocol carbon-emissions targets, will likely stall due to the "confused" political situation following the opposition victory in the recent Upper House elections.

Our contacts also speculated the dispute with China over oil and gas exploration rights in the East China Sea may be rekindled as a result of this situation. Please see Tokyo 3819 for more on the electoral fallout, the East China Sea dispute, Venezuela's investment environment and Japan's offer to stockpile Saudi Arabian oil. (ECON: Sally Behrhorst)

14. (SBU) WTO Talks Set to Resume as Japanese Negotiators Face Cabinet Reshuffle

Foreign Ministry (MOFA) officials told us August 23 they want to see a deal to bring the current multilateral trade round to a successful conclusion, but recognize that obstacles remain. Agriculture remains the most contentious area in the talks, particularly given Japan's domestic political climate. Japan's position will not be any easier after last month's Upper House

TOKYO 00003922 002 OF 011

elections.

The officials said they were not sure what sort of attitude the Democratic Party of Japan and its coalition partners would take toward the Doha process.

One official told us he did not anticipate any major changes to Japan's Doha posture after PM Abe unveils his new cabinet on August 27.

He added, however, that in contrast to other cabinet reshuffles, this one was difficult to gauge. Few names are emerging in the rumor mill. (Econ: Nicholas Hill)

15. (U) Abe Visits Indonesia, EPA, LNG and Climate Change Top Agenda.

Prime Minister Abe, on the first leg of a three-nation Southeast Asian tour, arrived in Jakarta on August 20 for a two-day visit to Indonesia. Signing the Japan-Indonesia Economic Partnership Agreement, Japan's sixth bilateral free-trade agreement, tops his agenda.

The agreement will remove duties on 93 percent of Indonesian exports to Japan and 90 percent of Japanese exports to Indonesia, the latter representing a significant increase in tariff-free access. The agreement exempts sensitive agricultural goods, notably rice, although Indonesia has become a slight net importer of rice in recent years.

Japan sought and obtained specific "energy security" provisions in the new agreement that call for bilateral consultations after the expiration of the current long-term liquid natural gas (LNG) supply contracts expire in 2010-2011. The agreement does not provide Japan a guaranteed energy supply, something it wanted but which Indonesia, with its growing domestic energy demand, resisted. Indonesian officials have already hinted that that country's LNG exports to Japan will decline in the future. Indonesia is currently Japan's number one supplier of LNG.

In addition to the signing, Abe sought Indonesian support for a Japan climate change proposal for a post-Kyoto framework and gave a public speech on the future of ASEAN. (ECON: David DiGiovanna)

FOOD FIGHTS

16. (SBU) Beef: Both Sides Feeling Grilled

U.S. and Japanese authorities continue to discuss the future of U.S. beef trade to Japan. The United States would like to see Japan adopt international standards based on science and allow U.S. beef imports without age restrictions. Japan prefers a political solution, allowing U.S. beef in from cattle under 30 months old.

On August 21, Japan's Agriculture Ministry (MAFF) passed its report to the Embassy on the experts-level talks that took place in June and early August. The Embassy's FAS Office is currently translating the document.

MAFF officials originally told us the report would contain a draft recommendation to open the market to U.S. beef from cattle under 30 months old, but nixed that idea when it became clear the two sides did not have a consensus.

Currently only beef from cattle 20 months old and younger is allowed into Japan.

MAFF is also pressing the Embassy for more information on the problem in Korea where banned bones were found in early August in a shipment -- an error that lead to a cut off of trade.

Japanese authorities have told FAS that they anticipate a barrage of questions on the matter during Diet deliberations beginning August 23.

Meanwhile, the U.S. Meat Export Federation (MEF) reported that U.S. beef imports to Japan doubled in June. This is partly due

TOKYO 00003922 003 OF 011

to the end of 100 percent box inspections of U.S. shipments, but also due to seasonable availability of beef from cattle under 20 months old, the only product allowed under Japan's current onerous trade regime. (ECON: Nicholas Hill)

17. (SBU) Farm Sector Protectionists Keep Up Pressure Against Doha

Japan Agriculture (JA) does not like the modalities paper that WTO Agriculture negotiations Chair Falconer distributed among member countries over the summer and is working with other like-minded organizations internationally to make its views better known.

A JA official told us August 22 that the farmers' lobbying organization had compiled a report of the views of similar agriculture organizations internationally, although would not share it with us.

Japan Agriculture News reported that JA Chairman Isamu Miyata cannot accept the draft text in its current form. In particular, he wants to see more latitude in identifying sensitive items.

WTO member states should be allowed to identify up to around 10 percent of all products as "sensitive," JA is arguing.

According to the newspaper, Miyata is also concerned about any effort in the upcoming round of talks to boost Japan's market access for rice. (Econ: Nicholas Hill/Ryoko Nakano)

18. (U) Upper House Election Results Not Good for Japan Agriculture

Although last month's Upper House elections have been characterized as a bust for those who favor agricultural reform in Japan, that does not mean the country's leading protectionist lobby, Japan Agriculture, fared any better.

According to the September edition of Foresight Magazine, the protectionist farm lobby and cooperative continues to lose political influence. Only 52 percent of JA-supported candidates won seats.

That is down from 75 percent in the previous round of Upper House elections when the LDP also suffered bad losses three years ago and substantially beneath the norm of recent years.

Until its recent drop off in support, JA-supported candidates usually won elections about 90 percent of the time.

Even its former Chairman, Toshio Yamada, barely squeaked out a victory in his proportional seat, with only 450,000 votes. Pundits noted that he probably had to get all the votes of the 270,000 nationwide JA staff. (Econ: Nicholas Hill/Ryoko Nakano)

19. (SBU) After Round Two, Agriculture Continues to Divide Japan-Australia FTA Talks

Australian and Japanese negotiators concluded their second round of FTA talks on August 10 in Tokyo. Some 18 sessions over five days covered a range of areas that would be included in a free trade agreement, with agriculture again providing the sticking point.

MOFA and an Australian Embassy official told us the talks went generally well across a number of other areas, including rules of origin, goods market access, technical barriers to trade, energy, government procurement, services, and investment.

Japanese negotiators, however, led by the Agriculture Ministry, are continuing to insist that sensitive products -- including dairy, barley, beef, rice, and tuna -- be carved out of the discussions.

A Japanese official involved in the talks attempted to put the best face on the impasse, but acknowledged that the agriculture talks lagged behind the rest. Asked if the two sides moved their agriculture discussion beyond what should be on or off the table, the MOFA official said not yet.

TOKYO 00003922 004 OF 011

At this stage, the Japanese agriculture negotiators wanted to state their case on why certain products needed to be carved out of any deal, and the Australian side was prepared to hear them out.

The MAFF officials who led the discussion asserted that including sensitive items in an eventual deal with Australia would devastate the local industry. They rehashed some of the static analysis that the ministry put forward during a Council of Economic and Fiscal Policy hearing in the spring. The Australians will respond to the Japanese argument to exclude sensitive items the next time the two sides meet, which is expected to be in November in Canberra or Sydney. (ECON: Nicholas Hill)

10. (SBU) Japan's Food Self Sufficiency Rate Drops Below 40 Percent

Japan's quixotic attempt to boost food self-sufficiency rates is bumping up against another force: reality.

The Agriculture Ministry (MAFF) released data on August 10 showing that the country's food self-sufficiency rate dropped to

39 percent in 2006, down from 40 percent the previous year and further away from its target of 45 percent by 2015.

The farm labor population is growing older and shrinking, with farms going out of business and the Agriculture Ministry is trying to turn back the tide by announcing the creation of another office.

According to reports in Nikkei and the Tokyo Shimbun on August 22, MAFF will open a Food Security Division to help boost the country's self-sufficiency rates. A MAFF official confirmed to us press reports that a study group under the Ministry will restart discussions on liberalizing regulations on farmland that had been temporarily shelved during the summer.

The Council for the Promotion of Regulatory Reform will also be covering the same topic this fall.

Some officials in the Agriculture Ministry have been fairly frank about the difficulty of raising the country's food self-sufficiency rate much above where it is right now, including to the press.

"It will be difficult to achieve that target," a Nikkei story quoted a MAFF official on the likelihood of reaching the 45 percent self-sufficiency rate the government has set for itself by 2015.

Economists we have talked to also do not see much prospect that the government can reverse a trend that is deeply rooted in the country's demographic trends and social realities. ECON: Nicholas Hill)

BUSINESS INTERESTS

11. (U) DOI DAS David Cohen Touts Japanese Business Opportunities in Guam, Saipan and Palau

During a visit to Japan, Department of Interior (DOI) Deputy Assistant Secretary David B. Cohen met with Japanese business groups and politicians, the American Chamber of Commerce in Japan (ACCJ), and the Japanese press. He received a high degree of interest in the upcoming 4th Annual Secretary of the Interior's Conference on "Island Business Opportunities" scheduled for October 8-9 in Guam. (ECON: Josh Handler)

12. (SBU) Local Governments Expecting Economic Windfall From New Sharp Plant

Sakai city of Osaka prefecture estimates that Sharp's new LCD panel plant will create 11.11 trillion yen (\$93 billion) for the local economy over the first ten years of operation (the plant is slated to open in 2010). Sharp's investment of one trillion yen

TOKYO 00003922 005 OF 011

(\$8.3 billion) is expected initially to infuse the local economy, especially local construction companies, with 800 billion yen (\$6.7 billion).

Sakai city tax revenue will see a 19 billion yen (\$158 million) increase in the first ten years and an additional 58 billion yen (\$483 million) the following ten years as initial tax incentives given to Sharp are phased out.

Sakai's job market stands to reap significant gains as well. Professor Katsuhiro Miyamoto of Kansai University predicts the number of new jobs could reach 80,000 with Sakai city being the recipient of 52,000.

Job growth can be attributed to Sharp's encouragement of parts makers such as glass manufacturers to set up shop near the site of the new factory to help keep production costs down.

In addition, a solar battery plant with a production capacity of 100 mega watts will be constructed on site and will open in 2009.

The Osaka Prefectural Government has promised to provide Sharp with a 15 billion yen (\$12.5 million) subsidy for the new plant. An Osaka prefectural official commented that the sizeable subsidy will pale in comparison to the significant influx in tax revenue from Sharp. (Osaka-Kobe: Scott Ravenhill/Naomi Shibui)

13. (SBU) Japan's Parent-Child Problem

U.S. private investment fund Perry Capital LLC is seeking to acquire a larger stake in NEC Electronics, Co., a spin-off of the Japanese IT giant, NEC Corporation, believing the smaller company would be profitable if it were allowed to operate independently of its larger parent.

The problem of an independently listed "child" firm operating in the financial interests of its larger, "parent" company to the detriment of minority shareholders' interests affects about ten percent of all Japanese listed companies (compared to less than one percent in the U.S.) and highlights a number of problems that afflict minority shareholders in Japan.

Although Perry Capital has the support of the Tokyo Stock Exchange and Japan's Pension Fund Association, NEC executives are showing no signs of accepting the offer or giving credit to the rights and interests of its child's minority shareholders. Please see cable Tokyo 03771 for more details. (ECON: Antonio Gonzalez)

14. (SBU) Hoya-Pentax Merger

This year's annual general shareholder meetings and the first ever poison-pill ingestion had some investors' stomachs in knots about M&A forecasts. But Hoya Corp.'s recent successful takeover of Pentax Corp. shows that there is still room for corporate takeovers in Japan.

Pentax issued a memorandum of understanding of a merger with Hoya at the end of 2006 at 709 yen per share, a premium of about 10.5 percent over the price the day before the memo was released. After heated internal debate, Pentax management ousted its CEO and director, who had promoted the deal, and abandoned the plan.

Even though infighting among Pentax management effectively resisted the deal, Hoya's persistence in seeking to acquire the optical equipment maker paid off because U.S. firms Sparx Group Co. and Fidelity Investments, Pentax's largest two main shareholders, were eventually convinced of the value of Hoya's bid.

The Hoya takeover shines hope for prospective takeovers in Japan, boding well for investors that intend on building corporate value for shareholders. Please see cable Tokyo 3823 for more details. (ECON: Antonio Gonzalez)

15. (SBU) Tax Revenues Up in the Kansai

The Osaka National Tax Agency announced that 2006 tax revenues in the Kansai's six prefectures from both individuals and corporations have risen over the last three years. This year's

TOKYO 00003922 006 OF 011

overall tax revenue saw an increase of 4.5 percent from the previous year with corporate tax revenues experiencing the greatest jump at 9.3 percent. When comparing prefectures, Kyoto had the largest tax revenue growth at 11.9 percent while Wakayama only registered a 1.1 percent increase.

A senior economist at the Osaka Prefecture Institute of Advanced Industry Development pointed out that economic gaps are becoming more pronounced in the Kansai region despite its relatively small

area.

For example, the profit disparity between the top (large companies) and bottom companies Small and Medium Enterprises (SME) is expanding. On an individual level, while average income tax revenue is rising, it is not being driven by higher salaries for a wide swath of workers, but rather a few cases of large increases in income by top-level earners. (Osaka-Kobe: Scott Ravenhill/Naomi Shibui)

¶16. (U) Bank of Japan Leaves Interest Rates Unchanged

At its meeting which concluded on August 23, the Bank of Japan's (BOJ) Monetary Policy Board decided to leave its target unsecured overnight call rate at 0.50 percent by a vote of 8-1.

Market expectations of a rate hike had been as high as 70 percent prior to the past week's financial turmoil, which saw these expectations dissipate down to near zero just before the BOJ meeting.

In its report following the meeting, the Bank of Japan confirmed its view that the Japanese economy is expected to continue expanding moderately. The Bank's comments on recent financial developments were sanguine, noting that "the environment for corporate finance remains accommodative," although "funding costs for firms have risen slightly."

The report simply stated that "against the backdrop of increased global uncertainties stemming from the sub-prime mortgage problem in the United States," Japan's stock prices and long-term interest rates had fallen and the yen's exchange rate against the dollar had risen.

Finance Minister Omi welcomed the BOJ's decision at a press conference. The Bank of Japan last raised interest rates in February 2007. (FINATT: Maureen Grewe)

¶17. (U) GE to Pull Plug on Consumer Finance?

GE's consumer finance subsidiary Honobono Lake is believed to be up for sale, according to media sources. Although GE Money contacts would neither confirm nor deny the reports, GE is apparently taking steps to sell Japan's sixth largest consumer finance firm, following last year's Money Lending and Banking Law revisions and the 2005's Supreme Court decision that exposed money lenders to massive retroactive liabilities for "grey zone" (overpaid interest) lending.

GE had previously announced plans to shutter 73 of 115 branches, 200 of its 1,342 cash machines and 48 regional collection offices by the end of the calendar year.

All of Japan's major consumer finance firms have undergone profound restructuring while making dizzying provisions against grey zone claims; Citigroup has reduced its consumer finance branch network in Japan by 80 percent and there has been ongoing consolidation among smaller operators.

GE's Lake has approximately 800 billion yen in outstanding loans, 2500 employees, and could be auctioned off as early as next month.

(FINATT: Mateo Ayala)

JAPAN POWER

¶18. (U) IAEA Says No Significant Damage to Plant

TOKYO 00003922 007 OF 011

The Kashiwazaki-Kariwa Nuclear Power Plant, affected by a 6.8

magnitude earthquake on July 16, safely shut down and damage appears less than expected, according to a 47-page report submitted by IAEA seismic safety review mission experts in early August. Nuclear Safety Commission (NSC) Chairman Atsuyuki Suzuki asserted that some IAEA observations were in line with the positions that NSC made public on July 30.

IAEA experts conducted a three-day physical examination of the seven reactor units, analysis of instrument logs and interviews with plant staff. The scope of the mission was limited to three main areas: 1) study of the plant's seismic design; 2) investigations of operational safety management response to the release of radioactive material and 3) observation of the amount of damage to the plant's structures, systems and components. The report summarized that although the earthquake exceeded the level of the seismic input taken into account in the design of the plant, the installations behaved in a safe manner during and after the earthquake. According to the team, this is probably due to the conservatism in designing facilities at Japanese nuclear power plants.

IAEA confirmed initial reports that the amount of radioactive materials released was well below the authorized limits and posed no threat to the environment. However, IAEA did ping TEPCO for their delay in reporting the leakage of radioactive material and recommend an improved accident reporting system. There were two minor incidents of the release of radioactive material: one through the exhaust stack of unit 7 and a second from the spent fuel pool of unit 6.

For more information on the impact of the earthquake on the nuclear power plant, see Tokyo 03296 and Tokyo 03263. (EST: Ayanna Hobbs)

19. (SBU) TEPCO Officials Brief Embassy on Kashiwazaki-Kariwa Nuclear Plant Damage

Two TEPCO officials were cautiously optimistic about meeting electrical demand if the summer remained cool at a briefing for Embassy staffers on the earthquake's impact on the Kashiwazaki-Kariwa nuclear power plant on August 1. They anticipated a maximum summer electricity demand of 61.1 million kw, but noted that cutting supplies to heavy industrial users was a way to meet a spike in demand.

When asked if they had a demand management approach that allowed them to subsidize energy saving steps taken by end-users, they replied they do not have such a system.

In terms of replacement power, they said they could obtain up to 62.14 million kw without the Kashiwazaki-Kari plant, but at an additional cost. Aside from what TEPCO could get from other utilities, TEPCO was exploring whether industrial sites that have independent power systems could make some contribution to the grid this summer since TEPCO would need several months to bring moth-balled oil-fired plants back on line.

The TEPCO officials spent some time reviewing the origins of the radioactivity that was released into the environment outside the plant.

Small amounts were in the water sloshed out of the spent fuel storage pool and managed to get into a drain system that exited the plant.

The iodine-131 that was detected was trace amounts that resulted from the normal operations of the plant and did not indicate the fuel was damaged.

The chromium-51 and cobalt-60 were activation products found in the crud and unrelated to the fuel.

The TEPCO officials were pleased that the plant as a whole had withstood a quake that exceeded its general design limits and that the SCRAM system had operated effectively. They could not provide the specific design basis for the fuel or fuel assemblies, however. One-third of the fuel rods are exchanged approximately

every 13 months, thus the oldest set had been operating some three years. (ECON: Josh Handler)

TOKYO 00003922 008 OF 011

¶20. (SBU) Earthquake's Reverberations Affect Power Supply to Industry

Tokyo Electric Power Co. (TEPCO) invoked power supply reduction agreements with large-lot customers for the first time in 17 years because of heavy electrical demand during a heat-wave while its Kashiwazaki-Kariwa nuclear power plant in Niigata Prefecture remains out of action due to the July earthquake, according to TEPCO's website and Japanese press reports.

Showa Denko, a supplier of petrochemicals and aluminum products, and Tokyo Steel cut power consumption; overall a total of 23 sites reduced electrical use by 120,000 kw, although TEPCO was seeking reductions as high as 150,000-200,000 kw.

Other TEPCO clients with different agreements have not been affected yet. Nissan Motor, however, could face up to a 40 percent cut in power, which could impact engine production, according to a Nissan official quoted in the press. Other industry and commercial groups are taking proactive steps to reduce energy consumption.

According to TEPCO, power usage on Thursday peaked at 61.47 million kw, up 2.2% from Wednesday and the highest yet this summer. (ECON: Josh Handler)

¶21. (U) Showa Shell to Build One of World's Largest Solar Cell Plants in Miyazaki

To meet the growing global demand for residential solar cells, Showa Shell Sekiyu K.K., the Japanese unit of Royal Dutch Shell PLC, announced on August 15 that it plans to build its second solar cell plant in Miyazaki prefecture by June 2009. Once completed, the \$130 million plant, capable of generating 60 megawatts (mw) annually, will be one of the world's largest next-generation thin-film solar cell plants. The firm's pilot plant, also in Miyazaki, with a capacity of 20 mw began commercial production in July.

While Kyushu currently accounts for only one percent of Japan's total solar cell production capacity, the Development Bank of Japan projects that share to expand to 10 percent of the nation's total by the end of JFY 09.

Other solar cell production in Kyushu includes Fuji Electric Systems in Kumamoto since 2006, Honda Motor, which will begin mass production of thin-film cells in Kumamoto this October, as well as Mitsubishi Heavy Industry, which is stepping up its investment in its Isahaya plant in Nagasaki. (Fukuoka: Yuko Nagatomo/Jim Crow)

¶22. (U) Inpex to Build LNG Terminal in Niigata

On August 9 Inpex announced it had started negotiations with Niigata prefecture and Joetsu city to construct a liquid natural gas (LNG) import terminal at Naoetsu Port in Joetsu city.

The terminal will consist of two 180,000 kl storage tanks and should start operations at the end of 2013. Inpex owns pipelines running from Naoetsu to seven nearby prefectures as well as Tokyo.

The imported LNG would go to city gas companies and manufacturers in those areas. The terminal would initially handle 500,000 to 700,000 tons of LNG per year with volume gradually increasing based on the demand. (The media speculates that it could handle up to 2 million tons a year, or roughly three percent, of Japan's current LNG imports.)

Inpex's initial investment would not exceed 100 billion yen. Inpex is currently involved in natural gas projects in northwestern Australia and Indonesia, some of which would be shipped to the new terminal. Inpex would thus become the first Japanese company to handle LNG from field development to domestic sales. (ECON: Eriko Marks)

PRODUCT SAFETY AND SECURITY

TOKYO 00003922 009 OF 011

123. (U) GOJ Scrutinizes Product Safety

Recent discoveries regarding unsafe imports from China prompted the Japanese to launch an interagency committee, Ministry of Foreign Affairs officials told us in an August 20 meeting. Domestically generated product safety scandals also focused public and government attention on the issue, Ministry of Economy, Trade and Industry (METI) officials told us in an Aug. 21 meeting.

The division of labor on product safety issues is complicated, METI officials indicated. METI has jurisdiction over specific manufactured items identified in Japanese law, but food safety oversight is divided between the health and agricultural ministries. Numerous regulations divide product oversight responsibilities. For example if a toy has a mechanical defect, METI would be responsible, but the presence of lead in the paint on the toy would fall under the health ministry's purview.

In addition to the ministries' oversight, the National Institute of Technology and Evaluation (NITE), a government-owned non-profit corporation, investigates and tests products to determine if they are safe. However, according to NITE's own website, the most assertive institution is the media which accounted for 64.9 percent of all consumer product defect reports in 2005. See Tokyo 3879 for more information. (ECON: Charlie Crouch)

124. (U) New Rules for Japanese Internet Service Providers to Fight Viruses

The Communications Ministry, according to a Nikkei report, will revise rules governing Internet service providers (ISPs) in order to allow them to block temporarily computers infected with viruses from accessing the Internet. New guidelines were sent to ISPs last week, which are expected to review their own procedures and gradually adopt new measures.

The guidelines outline circumstances under which ISPs can cut off users, and will allow disconnection of computers that have launched cyber-attacks through telecommunications networks, as well as infected personal computers that pose a risk to others. To date, Internet companies have followed their own policies and practices, but technically such measures have violated Japanese laws on telecommunications and privacy. The new guidelines are therefore aimed at protecting public interest and rationalizing rules governing ISPs.

According to Japan's Information-Technology Promotion Agency, 44,800 reported virus infections in 2006 was double the rate from five years earlier. Even the Bank of Japan's Web site was infected and inaccessible to the public for a short time last December. (ECON: Scott Smith/Kaoru Nakata)

PLANES, TRAINS AND AUTOMOBILES

125. (SBU) Japan Views Asia -- PM's Asia Gateway Report Online

"The 21st century is the century of Asia," is the bold opening of PM Abe's Asia Gateway Strategy Council's May 16 "Asia Gateway Initiative" report, an English-language translation of which is now online.

Now disbanded, the Council's report was incorporated into the Council on Economic and Fiscal Policy's annual economic policy recommendations. Led by Special Advisor to the Prime Minister for Economic and Fiscal Policy Takumi Nemoto and comprised of several prominent industry leaders and academics, the Council's report, nonetheless, is notable as an example of the current Japanese political leadership's thinking about Japan's political, economic and cultural relationship with the growing economies of Asia.

Parts of the reports recommendations on aviation reform have been covered in the Scope and in Tokyo 2180, but aviation plus the big-picture introduction and the sections on trade, financial markets, agriculture, culture, Japan's image abroad, tourism and

TOKYO 00003922 010 OF 011

foreign study are worth a glance. (ECON: Josh Handler)

¶26. (SBU) Yokohama Port and Japanese Megaterminal Policy: Minor Reforms with a lot of Business as Usual

Japan is creating megaterminals in three port areas to boost the competitiveness of its major ports and attract super-sized 8,000-plus TEU container vessels. PM Abe also has called for 24/7 port operations as part of his Asia Gateway Initiative to increase port competitiveness.

In July, we visited Japan's first megaterminal, the Honmoku BC Container terminal in Yokohama. The amount of containers handled by the port has increased by 10 percent a year, but this may be due to Japan's export-led growth rather than any cost reductions at the megaterminal.

Prices for services and the number of stevedoring and port services companies seemingly have not changed, and employment levels remain about the same. The terminal cannot implement 24-hour operations until trucking companies are willing to do the same.

Port officials were unaware of USG/DOE's MegaPorts Initiative for radiation monitoring of U.S.-bound containers. Based on our observations, the megaterminal policy has had a marginal impact on heightening the competitiveness of the port. More USG outreach to port officials and through them to port operating companies could be useful for implementing a requirement to screen all U.S.-bound containers for radiation sources. For more see Tokyo 03910. (ECON: Josh Handler)

¶27. (SBU) Michigan's Gentex Dominates Unique and Growing Auto Parts Sector

Gentex Corporation, of Zeeland, Michigan, which controls 80 percent of the global market for auto-dimming automobile mirrors, has had similar success in the Japanese market. Gentex has captured about 95 percent of Japanese automakers' OEM business in their sector, and Toyota is one of their most profitable accounts globally.

Nagoya PO met on August 21 with Gentex Japan President Kazuhiko Nishijima, who said Gentex's annual Japanese sales have expanded to \$160 million from \$8 million since opening its first Japanese office in Nagoya 10 years ago. Most of Gentex's sales in Japan are for autos bound for export. Currently, only about 2 percent of Japan's cars have auto-dimming mirrors, compared with one-third new cars in the U.S.

Nishijima said Gentex is the first American company to win Toyota's Quality Excellence Award, largely due to its low level of defects at well under 10 parts per million for its products,

which are made in Michigan. (Toyota keeps about three months' inventory on hand in Japan.)

The low defect rate is despite the mirror's surprising complexity.

Each of Gentex's electrochromic mirrors is controlled by an internal microcomputer system and many contain other components such as interior lighting, headlamp controls, tire pressure monitors, rear camera display, and hands-free microphone.

This relatively obscure parts sector is experiencing strong revenue growth, and mirrors will continue to gain added functionality since, as described by Nishijima, they are located at eye level, highest value real estate in an auto's cabin.
(Nagoya: Tamiki Mizuno)

128. (U) Toyota's "Sustainability Report 2007"

On August 8, Toyota released its "Sustainability Report 2007: A New Future for People, Society and the Planet" that covers Toyota's initiatives on energy and global warming, and reduction of CO2 emissions as well as social and economic questions.
(ECON: Junko Nagahama)

SPORTING

TOKYO 00003922 011 OF 011

129. (U) Matsuzaka Victimized Again

These are frustrating times for Boston's star Japanese import Daisuke Matsuzaka. The right-handed starter for the Red Sox is pitching well but his team is not giving him any run support. His most recent loss came in Tampa Bay on August 22 (August 23 in Japan) when he surrendered a two-run home run to Justin Upton and the Major League's best team -- that is, the Red Sox -- lost 2-1 to the lowly Devil Rays.

Matsuzaka's record slipped to 13-10.

Combined with the Yankees 8-2 victory over the Los Angeles Angels, the Red Sox lead over the forces of darkness -- that is, the Yankees -- has slipped to only five games.

On a related subject, Kei Igawa, the Yankees \$46 million pick up last winter, continues to turn in average numbers for the Scranton-Wilkes Barre Yankees of the International League. He is 4-4 overall with an earned run average of 3.62 after two demotions this season from the big club. (Econ: Nicholas Hill)

130. (U) "Gaman-tsuyoi" Prize Goes to Motorcyclist

Beating out Naha Consul General Kevin "Night" Maher, who had been nominated for continuing to serve after being flayed by the Okinawa press, 54-year-old Kazuo Nagata, who continued to drive a large motorcycle about two kilometers after hitting the center divider on a national highway and losing his right leg below the knee, has won Japan's "Gaman-tsuyoi" award. Nagata, a salaried worker, was apparently unaware of the loss of his leg despite the acute pain he experienced from the impact, police reported. Nagata, who was on his way to Gifu Prefecture with a group of about 10 friends, did not fall in the accident and continued the ride before noticing part of his leg was missing. (POL: Michael Meserve)

131. (U) This SENSITIVE BUT UNCLASSIFIED e-newsletter from U.S. Embassy Tokyo's Economic Section, with contributions from the consulates, is for internal USG use only. Please do not forward in whole or in part outside of the government. The Scope is edited this week by Charlie Crouch (CrouchCA@state.gov) and Joy

Progar (ProgarJ@state.gov).

¶32. (U) Please visit the Tokyo Econ Intranet webpage for back issues of the Scope. Apologies, this option is only available to State users. Please contact Joy Progar if you are from a different

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